ALASKA'S FISCAL PLAN STARTED WITH BUDGET CUTS

Some legislators, newspaper columnists and others criticize current efforts to address Alaska's billion dollar budget gap with revenues. "That's the wrong fiscal tool," they say. "Cut the budget first," they say. Well, we did. This session's discussions of broad-based taxes (income or sales), other taxes (on alcohol, motor fuel, cruise ship passengers) and Permanent Fund income follow years of budget cutting. State general funding reductions are especially significant when the effects of inflation and population growth are taken into account.

Here are some basic facts about Alaska's budget cutting and how we compare to other states:

GENERAL FUND BUDGET CUTS

- Data compiled by the National Conference of State Legislatures shows that **between FY 91 and FY 2001, the average state general fund budget growth was 70.4%**. During the same period, **Alaska's general fund budget <u>declined</u> by 15.5%** (*NCSA - State Budget and Tax Actions, 1991 and 2001*). Alabama and Utah were the only other states to show general fund declines over the period but both did so by dedicating some portion of their revenue base to funding education rather than making actual reductions to general fund programs.

- The NCSL study shows **Alaska is the only state to have actually cut general fund spending over the past decade.** In nominal terms, the study documents $418 million in general fund reductions for Alaska. In inflation- adjusted (real dollar) terms **that translates into a $525 million cut in purchasing power**.

PER CAPITA SPENDING

- According to Legislative Finance, **real (inflation-adjusted) per capita state general fund spending in FY 02 ($3,642) is at about the same level as FY 76 ($3,845), before the beginning of the oil era**. Most analysts consider the beginning of the oil era to be FY 79, the first full fiscal year of oil flow through TAPS. Real per capita general fund spending peaked in FY 82 at $20,145.
- State-by-state comparisons often show Alaska spending more per person than other states. Obvious reasons: harsh climate, scattered communities, fewer economies of scale, high transportation costs and cost of living. Other reasons may not be so obvious:
    - **Alaska provides many services that are the province of county or local governments elsewhere** – often because it is cheaper to do it that way. Examples: **courts, police, prosecutions, jails, transportation, health and social services**.

- **Schools**: the state pays 70% of the cost of school construction in urban school districts and 95% in rural districts. School construction is almost entirely a local responsibility in other states. The state also pays 62.2% of the operating cost of schools compared to the all-state average of 48.4% (although recent changes in the foundation formula are moving urban districts closer to the national average).
- **Vast resource management responsibilities**. Examples: troopers enforcing fish and game laws cover 6 times as much area per officer as Wyoming; 160 times the annual petroleum production but fewer oilfield safety inspectors than Indiana.
- **Short time span for developing infrastructure** since statehood including bringing rural villages up from third world to first world sanitation and health standards
- Alaska has **programs that other states don't** – Permanent Fund **dividends**, **Longevity Bonus, Pioneer Homes, Power Cost Equalization**, etc.

- In 1967, **long before the beginning of the oil era, per capita spending in Alaska was 3.5 times the national average**. That disparity has dropped. According to the U.S. Census Bureau in 1999, Alaska spent 2.7 times the national average.

OTHER FUNDS AND THE "OFF BUDGET" MYTH

- One of the more persistent "myths" is that the budget has not been cut at all because programs were simply moved "off budget" from general funds to other funds. In fact, **there are no "off budget" programs**. All are in the Governor's budget and appropriated by the legislature as required by statute. Only the Railroad is exempt from legislative appropriation.
- Self-funding programs do not affect the fiscal gap. During the past five years, the legislature and administration worked together so these programs could grow to meet the demand for services as long as the fees covered the growth. This has benefited oil and gas development, emerging fisheries and other Alaska industries, Pioneer Home residents, university and Alaska Vocational Technical Center students, and many others.
- Just because self-funding programs were switched from the general funds to other funds category as part of the 5-year budget cutting strategy does not mean their budget increases are automatically approved. They must be justified and reasonable so fees are not increased any more than necessary.
- Programs which have these categories of funds (called statutory designated program receipts and receipt supported services) total $107.5 million in FY02 out of $1.04 billion in "other" funds. The major fund categories in the budget are general funds, federal funds, "other" funds and Permanent Fund earnings (now used only for dividends and inflation proofing).